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Before the U.S. Housing Financial Services Housing and Insurance Subcommittee
"How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing"
Friday, July 14, 2023 at 9 am ET

Chairman Davidson, Ranking Member Cleaver, and members of the committee, thank you for the opportunity to present testimony on behalf of my organization, Americans for Financial Reform. We are a nonpartisan and nonprofit coalition of more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups. Formed in the wake of the 2008 crisis, we are working to lay the foundation for a strong, stable, and ethical financial system – one that serves the economy and the nation as a whole.

Our converging housing and climate change crises are taking a tremendous toll on everyday working people, who are facing increasingly unaffordable housing and insurance costs. Following years of heavy losses from climate-exacerbated hurricanes, fires, floods, and other natural disasters, insurers in states across the country are raising rates and pulling out of markets altogether. Just this week, Farmers Insurance announced that it will pull out of Florida, making it the latest of many insurance companies to do so within the last year.[1] In fact, 15 Florida property insurers have become insolvent since 2020, and at least 400,000 Floridians lost access to property insurance in 2022 alone.[2] In Louisiana, 11 insurers have gone bankrupt in the last two years and 10 others have left the state.[3] California has also seen a number of insurers limit their underwriting in its market in recent months, including State Farm, among others. And this is just the beginning; the problem will continue to grow worse each year, each decade, until the climate crisis is mitigated.

This hearing comes at a time of an unprecedented housing unaffordability, eviction, and homelessness crisis. In 2021, the number of tenants with unaffordable rents reached an all-time

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[1] Hannah Morse, Farmers Insurance is leaving its business in Florida, USA Today, July 12, 2023. Available at: https://www.usatoday.com/story/money/2023/07/11/farmers-insurance-leaving-florida-market/70403832007/
[2] Jack Sanner, Florida's Climate-Fueled Insurance Crisis, Boston University School of Law Review of Banking and Financial Law, May 17, 2023. Available at: https://www.bu.edu/rbfl/2023/05/17/floridas-climate-fueled-insurance-crisis/; Lori Rozsa and Erica Werner, Florida's Insurance Woes Could Make Hurricane Ian's Wrath Even Worse, Sept. 30, 2022. Available at: https://www.washingtonpost.com/climate-environment/2022/09/30/ian-florida-economy-insurance/
[3] Thomas Frank, Growing Storms Push Shrinking Louisiana Insurers Into Failure, E&E News, Nov. 22, 2022. Available at: https://www.eenews.net/articles/growing-storms-push-shrinking-la-insurers-into-failure/

high, with 49% of U.S. renters paying more than a third of their income on rent.[4] Median rents across the U.S. have surpassed $2,000 for the first time, and there is no longer a single state or county where a worker earning a full-time minimum wage salary can afford a modest two-bedroom apartment.[5] Although homeownership is still a goal for many renters, it is increasingly unattainable when high rents hamper their ability to save for a down payment. This is especially the case as home prices continue their meteoric ascent: the Federal Housing Finance Agency house price index hit an all-time high in June, pushing the American dream of homeownership further out of reach.[6] To afford a 20 percent down payment on a $436,800 home, the current median home sale price, a homebuyer would need $87,360, a sum that most American families simply do not have.

Property insurance costs and housing affordability are deeply interconnected. Purchasing insurance policies is one of the few actions individuals can take to protect their property from the effects of climate-driven natural disasters. Many Americans who own their home do not have a choice as to whether to purchase these policies, as their mortgage lenders require them to take out homeowner's insurance, and, depending on location, flood, wind, or fire policies. Fannie Mae and Freddie Mac also require borrowers to take out certain kinds of property insurance in order for their loans to be eligible for purchase. While renters are not required to take out these insurance policies directly, they contribute to insurance premiums indirectly by paying rent and relying on their landlord's ability to rebuild after a disaster. Therefore, the cost of insurance impacts a household's monthly housing costs and their ability to recover from damages following severe weather.

Factors Influencing Insurance Prices

The premise of today's hearing appears to be that ESG mandates are a major contributor to price increases in insurance. However, with the exception of the National Flood Insurance Program, insurance is regulated at the state, not federal, level, and our states are home to a broad diversity of political viewpoints. Some, like California, have adopted more stringent consumer protections such as limits on rate increases, while other states, like Florida, have passed anti-ESG laws. Yet, insurers are raising rates and withdrawing coverage in both of these states, so clearly ESG is not the main driver of insurance unaffordability.

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[4] Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing 2023. Available at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf, at 5-6

[5] National Low Income Housing Coalition, *The Gap: A Shortage of Affordable Rental Homes*, March 2023. Available at: https://nlihc.org/gap

[6] Logan Mohtashami, FHFA House Price Index hits an all-time high, HousingWire, May 30, 2023. Available at: https://www.housingwire.com/articles/fhfa-house-price-index-hits-an-all-time-high/

What, then, is behind these price increases?

Climate Change: Climate change is contributing to increasingly frequent and severe natural disasters worldwide, and the U.S. is not being spared.[7] The increase in physical damage caused in part by climate-exacerbated disasters has translated into massive, often unsustainable losses for insurers.[8] Climate change is, in effect, upending the risk calculus that our insurance system has been based on during decades of relatively stable conditions. Given the current turmoil in the insurance industry, it is increasingly clear that we cannot rely on private insurance alone to protect our homes from climate change, nor should we. This week, as I testify before you, my neighbors in upstate New York and Vermont are facing the heartbreaking loss of life and the devastation of homes, businesses, beloved local institutions, and infrastructure, all caused by an unusually severe rain storm. This follows the hottest June on record, and the record-setting prolonged heat wave that is currently inflicting misery on the southwest. Last month, you all saw this very House office building shrouded in wildfire smoke from the devastating Canadian wildfires that burned a greater area than in any previous year on record, even before wildfire season had begun.[9]

Rising Reinsurance Rates: Reinsurance rates for catastrophic property coverage have greatly increased in recent years. July reinsurance renewal costs have increased by 30 to 50 percent for U.S. policies that have previously faced claims for natural catastrophes.[10] The reinsurance market is global and unregulated, meaning that our federal and state governments have little to no control over reinsurance rates.

Unsustainable Land Use Practices: Too many states and localities continue to permit or even encourage new housing construction in flood-prone, fire-prone, or otherwise disaster-prone areas. While property owners living in these areas may have been able to easily secure insurance coverage in the past, insurers are increasingly pulling out of higher-risk areas. In the absence of sound land use policies, private insurers become the *de facto* regulator of new development. Difficult decisions regarding where we should build new housing, how to make it

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[7] IPCC, Climate Change 2022: Impacts, Adaptation and Vulnerability, available at: https://www.ipcc.ch/report/ar6/wg2/; https://www.ncei.noaa.gov/access/billions/

[8] Jack Sanner, Florida's Climate-Fueled Insurance Crisis, Boston University School of Law Review of Banking and Financial Law, May 17, 2023. Available at: https://www.bu.edu/rbfl/2023/05/17/floridas-climate-fueled-insurance-crisis/

[9] Somayeh Malekian, Emma Ogao, and Victoria Beaule, Canada marks worst wildfire season on record, July 1, 2023. Available at: https://abcnews.go.com/International/International/canada-marks-worst-wildfire-season-record/story?id=100474336

[10] Mika Pangilinan, US property catastrophe reinsurance rates surge, Insurance Business, July 5, 2023. Available at: https://www.insurancebusinessmag.com/us/news/breaking-news/us-property-catastrophe-reinsurance-rates-surge-451602.aspx#

safer and more affordable, and how to respond to climate-related disasters without rebuilding in unsafe areas should not be left in the hands of private industry. Rather, the federal government must work with states to develop comprehensive policies that intertwine our housing and climate needs, ensuring the course forward is dictated by the people, not just Wall Street and the insurance industry.

<u>Factors Influencing Housing Prices</u>

The federal government plays a much larger role in housing finance, with the Low-Income Housing Tax Credit providing essential financing for affordable housing development, and several government agencies participating in mortgage lending. Yet the vast majority of decisions regarding what housing can be built, where it can be built, and how it can be built are made at the state and local levels, resulting in a mixed landscape of consumer protections and tenant protections nationally. For example, Oregon has statewide limits on rent increases, while Florida prohibits localities from adopting any form of rent stabilization. Yet Florida, despite famously adopting numerous anti-ESG laws and regulations, is currently seeing the largest increase in housing rental costs in the nation, with rents rising 46 percent over the last three years.[11] So what is driving the increase in housing costs?

Affordable Housing Shortage: We have a severe, national shortage of homes that people with the lowest incomes can afford. Nationally, we need seven million homes that are affordable to Americans who live below the poverty line or earn below 30% of their area median income.[12] Unfortunately, we are losing what remains of our affordable housing stock at a rate faster than we can replace it due to rising rents and stagnant incomes. Many homes that were once affordable to lower-income people have seen their rental or purchase prices increase: in just three years (2019 to 2021), 36 states lost more than 10 percent of low-rent units and 14 states lost 15 percent.[13]

Unsustainable Land Use Practices: We desperately need new construction of affordable housing, yet it is illegal to build anything other than single-family housing in much of the U.S.[14]

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[11] Margaret Jackson, 10 States With The Highest Rent Increases, Yahoo Finance, July 7, 2023. Available at: https://finance.yahoo.com/news/10-states-highest-rent-increases-204102257.html

[12] National Low Income Housing Coalition. (2023). The Gap: A Shortage of Affordable Homes. Washington, DC. Available at: https://nlihc.org/gap

[13] Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing 2023. Available at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf

[14] Emily Badger And Quoctrung Bui, Cities Start to Question an American Ideal: A House With a Yard on Every Lot, New York Times, June 18, 2019. Available at: https://www.nytimes.com/interactive/2019/06/18/upshot/cities-across-america-question-single-family-zoning.html

While zoning reform is desperately needed to place affordable housing in communities that have historically rejected it, removing zoning barriers to new development alone will be insufficient to solve our housing shortage. Many lower-income Americans simply do not earn enough to pay rents that cover the cost of developing and maintaining housing in today's market.[15] Without tenant rights and protections, rents will continue to increase to unaffordable levels, resulting in the continued loss of affordable housing. Additionally, as discussed earlier, there are very good reasons to limit new development in climate risk-prone areas.

Corporate Profits: During the pandemic, corporate landlords seized the opportunity to consolidate their market share and have used inflation to hike rents and accumulate excessive profits on the backs of tenants.[16] Over the last few years, corporate landlords raked in record-breaking profits—even using algorithms to set high rents and evict tenants.[17] The real estate industry and corporate landlords have spent millions lobbying the federal government to stop national tenant protections and rent regulations. During the pandemic, the real estate industry spent more than $100 million lobbying against the eviction moratorium, with the National Association of Realtors (NAR) leading the push against the eviction moratorium and its extension.[18]

Private Equity: The rise of private equity and large investors in the housing market over the last decade poses another major challenge to housing affordability. These firms have increasingly consolidated their presence in all sectors of the housing market, from single family homes to rentals to manufactured homes. Multiple observers have found that private equity landlords tend to raise rents and fees, skimp on upkeep, and move aggressively to evict renters.[19]

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[15] Urban Institute, Affordable Housing: Does It Pencil Out?, accessed July 12, 2023, https://apps.urban.org/features/cost-of-affordable-housing/

[16] Accountable.US, America's Biggest Multifamily and Single-Family Landlords Continue to Reap Huge Profits and Take Advantage of Tenants, April 10 2023. Available at: https://accountable.us/wp-content/uploads/2023/04/2023-04-10-Updated-Research-On-Housing-Profiteering-FINAL.docx-1.pdf

[17] Julia Conley, Largest US Corporate Landlords Reap Huge Profits Amid Double-Digit Rent Hikes, Common Dreams, April 17, 2023. Available at: https://www.commondreams.org/news/corporate-landlords-profits-raise-rent
Heather Vogell, Rent Going Up? One Company's Algorithm Could be Why, ProPublica, Oct. 15, 2022. Available at: https://www.propublica.org/article/yieldstar-rent-increase-realpage-rent

[18] Maggie Hicks, Real estate industry groups spent millions to halt the national eviction moratorium, Open Secrets, August 4, 2021. Available at: https://www.opensecrets.org/news/2021/08/real-estate-industry-spent-millions-to-halt-national-eviction-moratorium/

[19] Roshan Abraham, People Are Organizing to Fight the Private Equity Firms Who Own Their Homes, Vice, May 16, 2023. Available at: https://www.vice.com/en/article/jg5pek/people-are-organizing-to-fight-the-private-equity-firms-who-own-their-homes; Heather Vogell, When Private Equity Becomes Your Landlord, ProPublica, Feb. 7, 2022. Available at: https://www.propublica.org/article/when-private-equity-becomes-your-landlord

Federal Lending Practices: Fannie Mae and Freddie Mac work with banks to provide $150 billion to landlords in multifamily financing every year,[20] with very few protections for tenants. The government-sponsored enterprises or GSEs do not make loans directly to multifamily landlords but rather purchase multifamily loans from lenders, promoting liquidity in the multifamily lending market while relieving lenders of any default risk. While the benefit to banks and borrowers is clear, for tenants, however, their experience of GSE financing has unfortunately been much more negative.[21] The GSEs have an indefensible track record of buying and providing government guarantees to overvalued loans that can only be profitable if the new owner neglects building maintenance, increases rents and fees, and seeks to evict lower-income tenants and replace them with wealthier tenants who can pay higher rents. The FHFA is currently conducting a request for information on tenant protections in multifamily housing, and we urge the FHFA to impose tenant protections including unreasonable rent increases and just cause eviction requirements.

Recommendations:

Support Climate Financial Regulatory Efforts: Financial regulators and institutions must manage and mitigate climate financial risks–not simply push the costs off onto consumers. Many lenders and insurers are contributing significantly to the climate crisis by internalizing short-term profits through their investments in risky, carbon-intensive industries, while externalizing the costs onto their customers and ultimately withdrawing when the physical climate risks get too high, leaving regular people underwater.[22] Financial regulators need to monitor these risks and risk management methods to protect consumers, financial institutions, and the financial system.

Improve Insurance Data Collection: We do not currently have access to the data necessary to systematically understand insurance trends on a national level including the harm to consumers from steep increases in prices or withdrawals of coverage, or the data to monitor the potential for systemic financial risk that may spill over into the broader financial system. We support the

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Americans for Financial Reform, Research Memorandum: Estimate of Minimum Number of Housing Units Owned by Private Equity Firms, June 28, 2022. Available at: https://ourfinancialsecurity.org/2022/06/letters-to-congress-new-afr-research-estimating-minimum-number-of-private-equity-owned-housing-units/

[20] Federal Housing Finance Agency, Release: FHFA Announces 2023 Multifamily Loan Purchase Caps for Fannie Mae and Freddie Mac, Nov. 10, 2022. Available at: https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-2023-Multifamily-Loan-Purchase-Caps-for-Fannie-Mae-and-Freddie-Mac.aspx

[21] Eileen Markey, How Freddie Mac Helps Private Equity Profit From Tenant Misery, The Nation, June 2023. Available at: https://www.thenation.com/article/society/freddie-mac-private-equity-housing/

[22] Brianna Sacks, Lawmakers launch probe of insurance firms' funding of fossil fuel industry, Washington Post, June 9, 2023. Available at: https://www.washingtonpost.com/climate-environment/2023/06/09/investigation-insurance-companies-fossil-fuels/

Federal Insurance Office's limited data request for ZIP-code level data on homeowners insurance policies in a selection of US states, and urge the FIO to go further in terms of seeking more granular data at the census tract level and additional data on state FAIR plan usage, and to analyze racial and economic disparities in access to and costs of insurance.[23]

Develop a Public Reinsurance Program for States: Reinsurance price increases are another major driver of insurance pricing. A public reinsurance program could allow states and companies to opt-in in exchange for agreeing to consumer protections, access to coverage, and limiting or ending development in hazardous locations.

Support Climate Resilient Communities: The Inflation Reduction Act provided a large amount of federal funding to support individual property owners in making their homes more energy-efficient and climate resilient, as well as funding to improve climate resilience in affordable housing and public infrastructure, among other expenditures.[24] FEMA also provides Hazard Mitigation Grants for state and local governments to develop hazard mitigation plans and rebuild in a way that reduces future disaster losses in their communities, along with limited resources for buyout programs. These resources are deeply needed, and we will need to significantly expand these resources to meet current demand.

Support States in Lowering Disaster Losses: States can reduce their future disaster losses by limiting or ending new development in hazard-prone areas, investing in climate resilient infrastructure, and requiring insurers to provide premium reductions when property owners undertake "home hardening" improvements that will reduce their vulnerability. California took these steps following its devastating 2017 and 2018 fires, while allowing insurers to increase rates. In the years following the 2018 fires, California insurers have earned substantially higher profits for homeowners insurance than the national average: nationally, insurers earned 7% profits on homeowners insurance in 2019, but they earned 32.8% in California that year, and California homeowners insurance policies have continued to be much more profitable in subsequent years.[25]

Require Tenant Protections on FHFA-Financed Properties: The FHFA should require limits on rent increases to no more than 3% annually as a condition of receiving federally-backed

[23] Americans for Financial Reform, Letters to Regulators: Letter in Support of FIO's Proposed Climate-Related Financial Risk Data Collection, Dec. 20, 2022. Available at: https://ourfinancialsecurity.org/2022/12/letters-to-regulators-letter-in-support-of-fios-proposed-climate-related-financial-risk-data-collection/

[24] The White House, Inflation Reduction Act Guidebook, Jan. 2023. Available at: https://www.whitehouse.gov/cleanenergy/inflation-reduction-act-guidebook/;

[25] NAIC Report on Profitability by Line by State in 2021, January 2023 at 143 and 163. https://content.naic.org/sites/default/files/publication-pbl-pb-profitability-line-state.pdf

financing from the GSEs. The ability to impose large, unjustified, and unaffordable rent increases on tenants is functionally equivalent to the ability to evict tenants without cause. Limits on rent increases will protect tenants from eviction and/or homelessness by creating a schedule for reasonable and gradual rent increases. Imposing limits on rent increases is a proven policy that can immediately stabilize prices, halt rent gouging, and reduce the risk of displacement and homelessness, while increasing housing security and affordability over the long term.

Crack Down on Private Equity Abuses: We support the Stop Predatory Investing Act, which was introduced this week in the Senate. The Stop Predatory Investing Act will remove the interest and depreciation deductions for large investors in the single-family home space, giving regular Americans a hand in the housing market while making our tax code fairer.

Thank you for the opportunity to provide testimony on these urgent issues. I look forward to answering any questions members may have about my testimony today.